Office of Health Plan Administration
P.O. Box 720724
Sacramento, CA 94229-0724
Telecommunications Device for the Deaf, TTY 1 (800) 795-2929; (916) 795-3240
(916) 795-2515; FAX (916) 795-4105
Toll Free: **888 CalPERS** or **888-**225-7377

May 15, 2007

AGENDA ITEM 10

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

I. SUBJECT: Self-Funded Health Plans 2006 Year-End Financial Report

II. PROGRAM: Health Benefits

III. RECOMMENDATION: Information Only

IV. INTRODUCTION:

The purpose of this report is to provide the CalPERS Board of Administration (Board) with an update on the status of the financial reserves for the self-funded health plans. This report covers the calendar year ending December 31, 2006.

The overall financial position of the self-funded health plans remains strong. The medical and pharmacy claims cost trend continues to show an overall steady decline for the 2006 year. The ongoing positive financial results for the program assets provide assurance that the rates approved by the Board for the 2006 plan year were sufficient to fund benefits and to maintain adequate reserves.

V. ANALYSIS:

Anticipated Experience Due to Reserve Draw-down

At the direction of the Board, a portion of the excess reserves were used to reduce the 2005 and 2006 premiums. As a direct result of this approach, the loss ratio for the entire 2006 year was expected to exceed 100 percent. At the end of the calendar year, the overall loss ratio combined for the self-funded health plans was 98 percent. This resulted in an underwriting gain of $19.5 million overall between the four self-funded health plans. The calendar year produced results better than expected taking into consideration that this is the second year of the draw-down of reserves. The gain was the result of the continuing lower than expected trend in the medical and pharmacy claims costs across all four self-funded health plans.

Assets above the actuarial reserve requirements for the calendar year 2006 were $176 million, an increase over the third quarter of $33.6 million. This increase was due to several factors, including better than expected claims costs trend, better rebates relating to the new pharmacy contract, and better investment returns.

The following attachments provide more detailed financial and trend information:

<u>Attachment 1</u>

This attachment displays summary results for the calendar year 2006 and the prior two years. Although the Medicare Supplement plans show significant improvement between 2005 and 2006, PERSCare is still operating at a loss and PERS Choice is at break-even.

The most notable development is that the 12-month rolling trend for both medical and pharmacy is in the single digits for all four self-funded health plans.

<u>Attachment 2</u>

This attachment presents the per-member-per-month (PMPM) medical and pharmacy claims costs for five quarters beginning with the fourth quarter of 2005.

The year-to-year medical costs show lower-than-expected increases for PERSCare Medicare Supplement plan at 4.2 percent and PERS Choice Basic plan at 9.5 percent. While the year-to-year medical costs show a decrease in PERSCare Basic plan at -1.1 percent and PERS Choice Medicare Supplement plan at -2 percent.

It should be noted that pharmacy claims are consistent with the medical claim costs, with the two Basic plans showing a small increase (PERSCare Basic increasing by 2 percent and PERS Choice Basic increasing by 4 percent) and the two Medicare Supplement plans showing a decrease (PERSCare Medicare Supplement plan at -0.7 and PERS Choice Medicare Supplement plan at -4.6 percent) in the PMPM.

<u>Attachment 3</u>

This attachment presents asset values and asset changes for the self-funded health plans.

As of December 31, 2006, total Program assets (line 15) exceeded the actuarial reserve (line 17) by over $176 million. The excess in assets less reserves increased by $33.6 million over the third quarter, based on lower claims costs, better rebates from the new pharmacy contract and investment returns. Although the PERS Choice Medicare Supplement plan assets (line 12) exceed the actuarial reserve by only $7.3 million (consistent with the calendar year 2005), overall the asset level continues to be positive across all four self-funded health plans.

<u>Attachment 4</u>

This attachment highlights the relative strength of the assets compared to the actuarial reserve. The overall level of the assets in the self-funded health plans remains strong.

Attachment 5

This attachment shows the overall enrollment trend for the four self-funded health plans.

The PERSCare Basic plan enrollment continues to decline, which places this plan at a greater risk of volatility. Because of the small number of total covered lives in this plan (23,025 as of December 2006 which is a year-to-year decrease of 1,843 members), relatively few adverse situations can have an inordinate effect on the plan's financials.

Even though the PERSCare Basic plan's financial situation remains strong at this time, staff, working with input from actuarial consultants, continues to monitor this situation.

VI. STRATEGIC PLAN:

This directly relates to Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VII. RESULTS/COSTS:

This item is presented as information only.

Marcine Elvin Crane, Jr., MS, CPA
Chief, Office of Health Plan Administration

Gregory A. Franklin
Assistant Executive Officer
Health Benefits Branch

Attachments